ENUGU FORUM POLICY PAPER 9

DEBATING POLICY OPTIONS FOR NATIONAL DEVELOPMENT

Challenges of Mortgage Finance in Nigeria: Questions of Access and Sustainability

AFRICAN INSTITUTE FOR APPLIED ECONOMICS

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CHALLENGES OF MORTGAGE FINANCE IN NIGERIA: QUESTIONS OF ACCESS AND SUSTAINABILITY[1]

[1] Proceedings of Enugu Forum, held on October 29, 2008

Published by African Institute for Applied Economics

First Published February, 2009.

ISSN 0794-4195

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ABOUT ENUGU FORUM

INTRODUCTION

Opening new spaces for domestic policy dialogue is one of the most important potential gains of democratic governance. Democratic space creates public policy arena in which government can be engaged by private sector and civil society on what it is doing or not doing, and hence be pressured to perform. Since the return to democratic rule in 1999, there has been an upsurge of private sector and civil society engagement with governments on economic policy and development issues. But, the upsurge of civic advocacy on economic and development issues has not been matched with commensurate improvements in the quality of debates on policy alternatives and roadmaps for national development.

ENUGU FORUM is intended to provide a civic arena for proposing and debating policy alternatives and roadmaps towards social, economic and political progress of the country. It is hoped that the FORUM will foster interaction between government and non-state actors towards good governance, accountability and participatory democracy.

IDENTITY AND MISSION

Enugu Forum is a civic platform devoted to intellectual conversation and of policy issues affecting the growth and development of the country. It was founded in 2001 to promote informed and credible avenues of stakeholder dialogue and policy advocacy. It seeks to improve the policy process through high quality debate and non-partisan discourse of alternative solutions to contemporary development questions.

The Forum deploys both intellectual and empirical insight to nurture a shared understanding and objective scrutiny of policy issues on social, economic and political development of the country.

ACTIVITIES

Enugu Forum's activities take several forms:

- Public Lectures
- Seminars
- Workshops
- Conferences
- Roundtables

The activities bring together diverse stakeholders including government officials, private sector operators, independent think-pots and civil society to exchange and constructively critique perspectives and experiences on critical policy imperatives. Attendance is by formal invitation.

OUTPUTS

The outputs of the Forum's activities take the form of communiqué outlining key outcomes of discussions, conclusions and recommendations. The presentations and proceedings are further developed into Occasional Papers, Working Papers or Policy Briefs widely circulated to inform, sensitise and enlighten stakeholders.

STRUCTURE AND ORGANISATION

Enugu Forum is structured into a Steering Committee, a Coordinating Committee and the General Members. The Steering Committee governs the Forum through guides and policies agreed in consultation with the General Members. The Coordinating Committee executes the activities and programmes.

MEMBERSHIP

There are two classes of membership: individual and corporate. The Forums' activities are open and can be attended by all interested persons but formal invitations are issued to members and designated guests only. To be a member, one needs to register in the appropriate category. Registration can be done during the Forum's events, or at the Host Organisation - African Institute for Applied Economics, Enugu.

SPONSORSHIP

Ownership of the Forum resides in the members. It is run on the goodwill contributions from corporate bodies and individuals. Sponsorship includes provision of venue, refreshments, logistics, and facilitation of Guest Speakers and Resource Persons.

HOST INSTITUTION

The Enugu Forum is hosted by the African Institute for Applied Economics (AIAE) Enugu. AIAE is a non-governmental, not-for-profit and independent organization devoted to economic policy research towards promoting evidence-based decision making. It is located at 128 Park Avenue, GRA, Enugu, Phone: (042) 256644, 256035, 300096; Fax: (042) 256035. e-mail: info@aiaenigeria.org, website: http://www.aiaenigeria.org

ENUGU FORUM POLICY PAPERS

Enugu Forum Policy Paper Series publishes the proceedings and outcomes of workshops, conferences, seminars or public lectures held by the Enugu Forum. The Series provides documentation of the topical presentations, debate, comments and perhaps consensus at the Forum.

It is intended to disseminate the Forum's intellectual discourse to a wider audience. The essence is to stimulate broader policy debate and promote multi-perspective dialogue on policy options.

Enugu Forum Policy Papers constitute an advocacy instrument to canvass alternative development solutions and policy roadmaps, for the overall purpose of enriching the policy discourse in the country. The Series also draws attention of government, private sector and civil society to salient dimensions of contemporary development challenges in Nigeria.

1.0 INTRODUCTORY REMARK

Prof. Eric Eboh, Executive Director, AIAE

1.1 Introduction

Enugu Forum is a civic platform for informed debated on socio-economic issues with the objective of proffering ideas to enhance the quality of policy decision-making. The forum is facilitated by the African Institute for Applied Economics (AIAE), in line with its mission to promote evidence-based policies. The forum comprises civil society organizations, private sector organizations, government, technocrats and academia.

The October 2008 session of the forum featured a policy colloquium titled “The Challenges of Mortgage Finance in Nigeria: Questions of Access and Sustainability”

The forum session covered three sub-themes, namely:

1. Demand and Supply Perspectives on Mortgage Finance in Nigeria;
2. Legal and Regulatory Bottlenecks to Mortgage Finance in Nigeria; and
3. Practical Experiences and Lessons in Mortgage Finance.

1.2 The Rationale for the Choice of the Theme

In recent years, the banking sector and economic reforms in the country have had stimulating effects on the mortgage industry. The improved prospects of long-term finance have raised the potential for enhanced housing delivery, home ownership and real estate development through mortgage financing strategies. Despite the improved prospects, Nigeria’s mortgage industry remains underdeveloped, reflected in poor housing development and mortgage finance indicators. Underdeveloped mortgage industry in Nigeria is underscored by the fact that mortgage loans amounted to only 0.12 percent of Gross Domestic Product (GDP) in 2005, compared to 3 percent in Ghana, 5 percent in India and 20 percent in South Africa.

The abysmal housing delivery in Nigeria is the consequence of interplay of several factors encompassing institutional, administrative, policy and cultural elements of our national life. These factors undermine the access and sustainability of mortgage finance in Nigeria. Questions of access and sustainability become more pertinent in the face of current global financial crises and its potential impact across countries.

The emerging scenario of global financial meltdown raises policy issues of great relevance, to wit, what is the state of mortgage industry in Nigeria? Who are the player and what are their values – added? What institutional and policy factors contribute to the underdevelopment of Nigeria's mortgage industry? How can these factors be ameliorated? What is the role of financing in the mortgage sub-sector? How can mortgage financing be improved? What are the imperatives for improving the access of Nigerians to mortgage facilities? What can guarantee sustainable mortgage finance and opportunities attendant on the current global financial crises?

The forgoing questions are what the 2008 forum session attempts to address. It is expected that the outcome of the colloquium will be of immense benefit to bankers, financial institutions, governmental organizations, regulatory agencies, researchers, professionals and the general public as consumers of ideas. I wish you very fruitful deliberations. Thank you for coming.

2.0 MORTGAGE FINANCE IN NIGERIA: AN OVERVIEW

John Okoye, Area General Manager, Zenith Bank Plc, Enugu

Let me join the Executive Director of the African Institute of Applied Economics, Prof Eric Eboh, in welcoming the panellists and participants to this very important policy colloquium on the Challenges of Access and Sustainability of Mortgage Finance in Nigeria. I thank you all for finding the courage to attend a forum on investment such as this especially at this time. I say courage because investors in asset markets are ruled by “fear and greed”

Peter Lynch in his book “One upon the Wall Street”, observed that people ignore him during bull markets (when even barbers doubles as stock pickers) but same people turn to him when market tumble! Similarly, in this era of global financial crisis, it is upon the experts that the people look up to understand the issues at stake and the way forward. And the organizers of this Policy colloquium have assembled experts from different professions to enlighten us on the issue of challenges of mortgage industry in Nigeria.

As you all know, the mortgage meltdown leading to the current global credit crunch is of American origin. What went wrong? What is Nigeria’s current economic condition? Are we already engulfed in the market crash/credit crunch? Or are we just vulnerable? What are the implications of the dire global situation on the Nigerian financial system? The answers to the foregoing and more will be provided by the experts in this proceeding.

I thank the African Institute for Applied Economics for sensitizing members of Enugu Forum and the general public on the current global financial crisis using the instrumentality of this policy colloquium.

2.1 Mortgage Finance Scenarios in Nigeria

What is mortgage finance? Why is it a necessity? Is lack of finance the only factor hindering mortgage development in Nigeria?

We should appreciate that Mortgage is a loan for the purchase of a real estate with same property serving as the loan collateral. It is about the most important financing for individuals, businesses and governments for three major reasons, namely, necessity, affordability and leverage.

Housing is a basic necessity of life. We all need it, whether we are employed or unemployed, rich or poor. That is why organizational behaviourist like Abraham Maslow in his Hierarchy of Needs Theory, ranked shelter next to food. It is for that same reason that every government declares provision of affordable housing a challenge. Check out President Yar'Adua's 7-point Agenda or Governor Chime's 4-point agenda and you will understand the importance of housing to the society.

Although housing is a necessity and ought to be within the reach of any average citizen, the reality is that it is too expensive to be affordable. Indeed, real estate acquisition is very expensive. It is about the most expensive asset, hence in developed economies, it is suspect to think about buying a house without mortgage finance.

World Bank statistics paints a grim picture of the problem of housing delivery in Nigeria. The 2005 World Bank Development Report estimated that 31 percent of Nigeria's 140 million people (43.4million) falls within the working class, only 10 percent (4.3milloin) are engaged in the public and organized private sector. About 60 percent of the working class is the middle and lower classes and more than 70 percent of them (1.81 million) cannot afford houses that cost more than ₦5 million. This amount is actually too small to acquire a decent real estate in many cities in Nigeria but only a handful of Nigerians can afford it. Check out this housing affordability index against the cost of houses in Enugu, Port Harcourt, Abuja or Lagos and you begin to understand why we need mortgage finance to actualize our dreams of being our own landlord!

We need mortgage finance for us to make progress as a nation in terms of housing delivery. No wonder, the nation could not actualize its dream of Housing- for- All by year 2000. As we advance to 2015 for the achievement of the Millennium Development Goal on housing, we need a functional and sustainable mortgage finance system in Nigeria to be able to attain adequate and sustainable housing.

With the financial sector reform in year 2004, primary mortgage in this country has improved in terms of availability, institutional framework and competition. The housing sector has also seen the debut of institutional property developers with complementary mortgage backups. But the absence of effective secondary mortgage to keep refinancing mortgage raises the question of sustainability of progress in the sector.

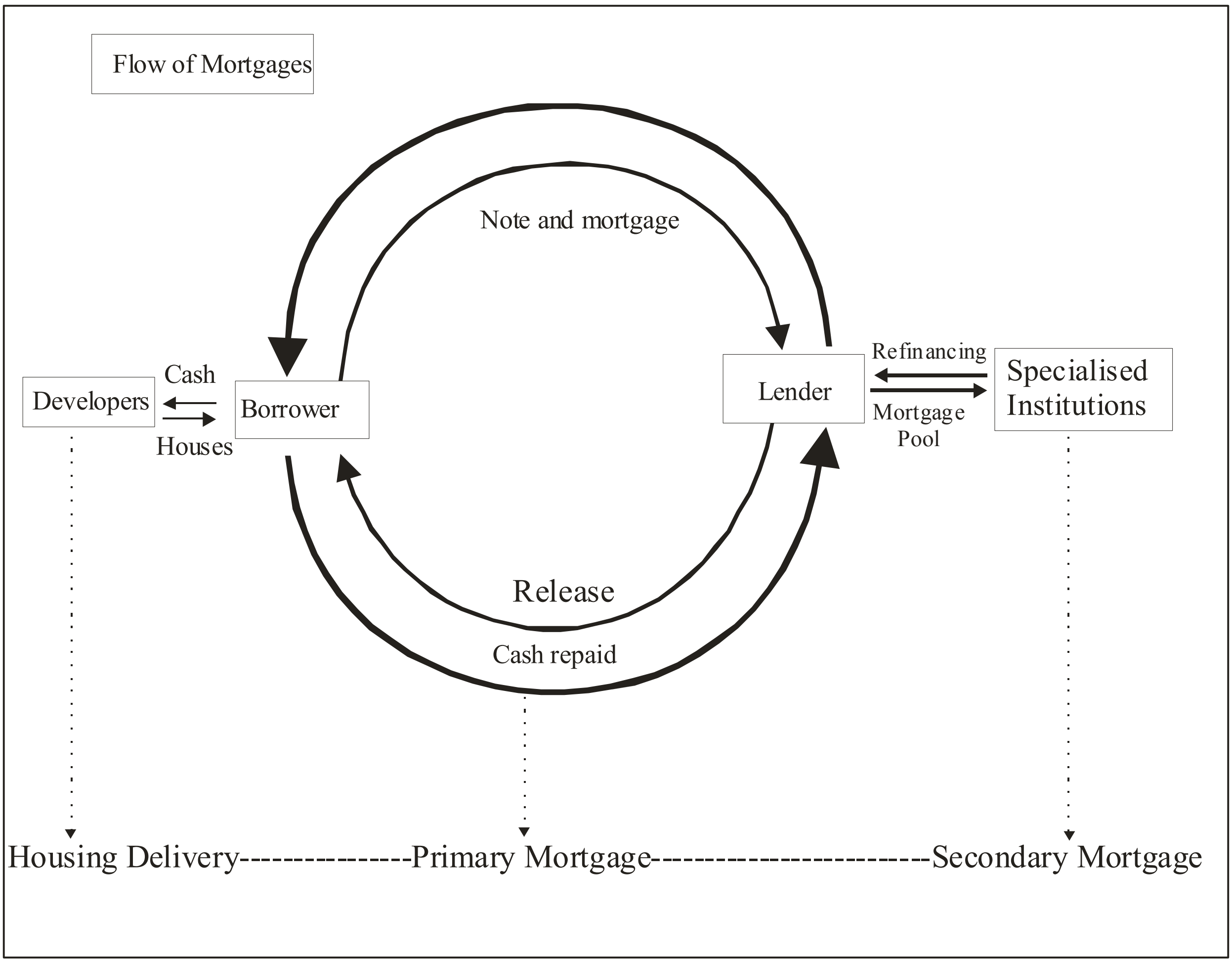


Figure 1: Flow of Mortgages

2.2 Housing Problem: Beyond Finance

There seems to be a growing impression that lack of finance is the only factor hindering the mortgage development in Nigeria. This is a wrong notion. Other problems such as legal bottleneck, the nature of housing sector operators among other factors constitute obstacles to the development of the real sector.

Talking about the character of housing operators, do we have developers who can build say 500 to 1,000 housing units in a year? Or can we achieve affordable housing for the vast majority of the population by year 2015 through self help efforts? The answer is No. While mortgage financing is a necessity for sustainable housing needs, there is the imperative for us to handle other problems constituting obstacles to effective, efficient and sustainable housing delivery.

3.0 THE DEMAND AND SUPPLY PERSPECTIVES ON MORTGAGE FINANCE IN NIGERIA

Stanley Ukeje, Senior Economist, Monetary Policy Department Central Bank of Nigeria

3.1 Introduction

I thank the African Institute for Applied Economics (AIAE) for inviting me as a panelist on the topic: Mortgage Finance in Nigeria: Challenge of Access and Sustainability. My specific brief is the Demand and Supply Perspectives on Mortgage Finance in Nigeria**.** On this kind of occasion, it may be necessary to make a few clarifications. The first is that Mortgage is the pledging of a property to a lender as a security for a mortgage loan. The property that is material in respect of mortgage is real property which generally includes land, land improvement such as buildings and plants on land, and various rights over them. The pledging of property (mortgage) is by way of a legal instrument which creates a security (negotiable/ transferable instrument) for a lender. Of course the pledge is made by the borrower who receives money or other instrument (of value) from the lender. Mortgage can be created for several purposes but we are concerned here with mortgages in the real estate (housing) market.

Housing is one of the three foremost basic human needs (the others being food and clothing). It is both a private and social good because it affects individual and general economic welfare. In the market for real estate, the following are key parties:

1. Owner/User of houses who actually use them;
2. Owner who rents, leases or sells houses to others;
3. Renter who is a pure user/consumer;
4. Developers who produce houses for the market;
5. Renovators who supply refurbished houses; and
6. Facilitators such as financiers, brokers, legal practitioners, and others that service the market.

In Nigeria, a predominantly rural and poor country, (with World Bank GDP per capita of US $1,120 (2007), the real estate mortgage finance market proper is a non-farm, non-poor urban phenomenon. This is because the quality of materials, design of buildings, the cost of labour, and the policy environment does not cater for traditional houses which have no monetary value. A house is about the most important asset of most households in the world. It is a consumer durable that will take most households at least twenty years to build from savings out of own income. Without owning a home, most non-farm urban households will have to rent. Mortgage financing makes available home ownership by making owning like renting; a small initial outlay and modest monthly payments.

Having made these initial clarifications, the remainder of my presentation will flow as follows: Theory of the Demand and Supply of Housing; Country Experience on Home Ownership Market and Public Policy; the Nigerian Experience in Real Estate Financing; Challenges of Demand and Supply of Mortgage Financing in Nigeria; The Perspectives and Conclusion.

3.2 Theory of the Demand and Supply of Housing

The theoretical underpinning of the demand and supply of housing is shaped by the characteristics of the subject product.

- A house is a durable investment and consumption good. As a durable good, the existing stock is a very large percentage of available supply. The flow of new houses at any time is negligible (even in Abuja today). Houses used by the owners and renters are consumption goods, while to others, they are investment goods that generate income and attract capital value charges.

- Although a house offers shelter from the elements, there are houses and there are house. There are residential, commercial and industrial houses and every house offers a unique service. A house can be classified according to location, age, quality, time and uses to which it can be put. Thus, housing is a heterogeneous product.

- A house is typically an immobile good and consumers must move to it rather than the good moving to them. Houses and the land on which they are built on cannot be moved from place to place. In many urban areas, houses are in close proximity and therefore generate externality.

- A house is a specialty product. It takes a lot of time, money and skills to produce. Consumers also take a lot of time, money and skills to obtain and move into houses. So for both owners and users, there are high transactions costs associated with supply and demand for houses.

3.3 The Demand for houses

The demand for houses comes mostly from households (not individuals). Typically, one household requires one house. The rate of growth of population and formation of households determine the rate of growth of demand for housing.

Effective demand in the market is affected by factors such as the household's permanent income, the price of houses, the cost and availability of credit, household's preferences, investor preferences and regulations.

For a household, utility, (U) comes from consumption of several goods, including housing, given its budget constraint, (Y), while rent can be paid from current income, a house cannot be bought/built out of current income for the typical household.

$U=U(X_F, Xc, X_H, X_M, X_E \ldots X_N)$

Where X_F represents quantity of food

X_C represents quantity of clothing

X_H represents quantity of housing

X_M represents quality of medical services

X_E represents quality of education services

X_N represents quantity of other goods and services

Given the prices of each good and service demanded and the available income Y, the budget constraint will be

$Y=P_FX_F + P_CX_C + P_HX_H + P_MX_M + P_EX_E + \ldots P_NX_N$

Because housing ownership can mostly be financed by saving or borrowing and the utility of a house is not instantaneous, P_HX_H can be decomposed for a household into $P_{H1}\ X_{H1}+P_{H2}\ X_{H2}+\ldots P_{HN}\ X_{HN}$ to produce its demand schedule for housing. The sum of all households' demand schedules will make up the market demand for houses.

3.4 The Supply of Houses

A house is produced using several materials, labour, equipment and services, provided there is land on which it will be erected or placed.

The total supply of houses at any time is made up of the existing stock in the previous period, less depreciation, and new developments. New house development is determined by the cost of inputs, the price of existing stock of houses and technology of production. The same factors determine deterioration of the existing stock because they affect the decision to renovate. Cost of building can be broken down into land acquisition costs, site improvement costs, labour costs, materials cost, finance costs, administrative (or procurement) costs and marketing costs. If the cost of acquisition is high, it creates a high hurdle that delays or slows new housing starts.

A housing supply (production) function Q at time t will be a composite of the supply of new and existing stock of houses.

$Q=Q(L_S, L_C, L_P, W, E_C, U, N/A, C, M, P)$

Where

Q represents number of houses

L_S represents stock of land with outstanding planning permission

L_C represents constraint on future supply of land for housing

L_P represents planning policy for land release for private housing

W represents wage rates relevant to construction

E_C represents employment in the construction industry

U represents unemployment rate.

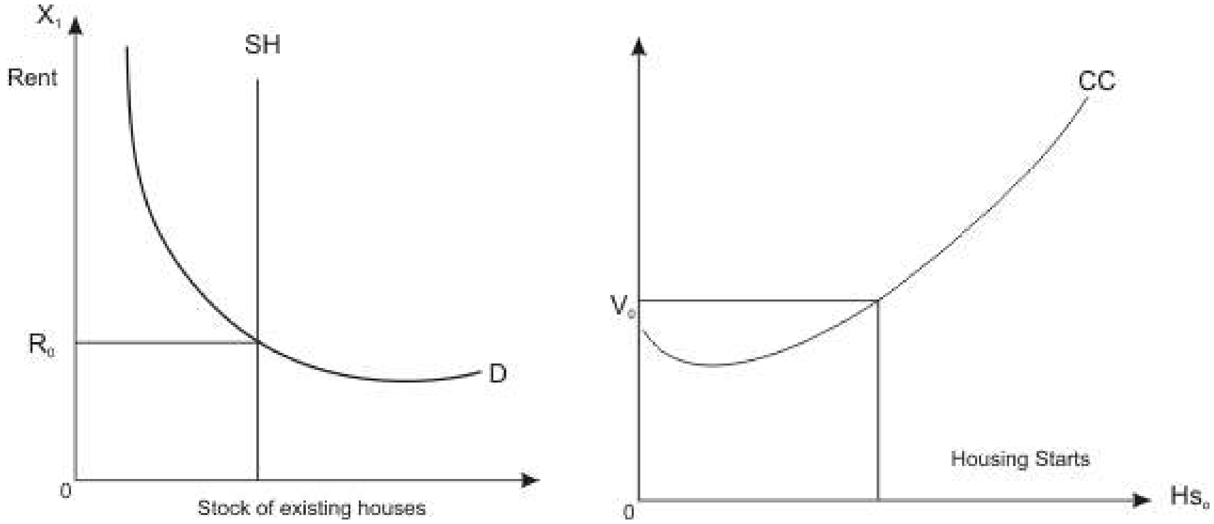
N/A represents density of population

C represents a function of construction per unit

M represents other materials

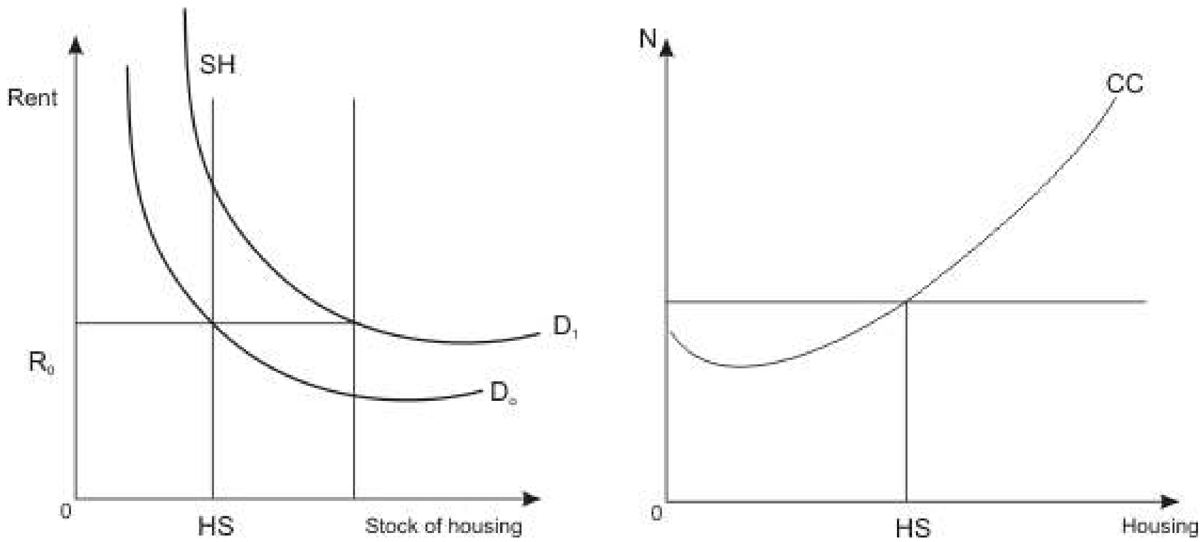
P represents price of existing housing stock

Diagrammatically,

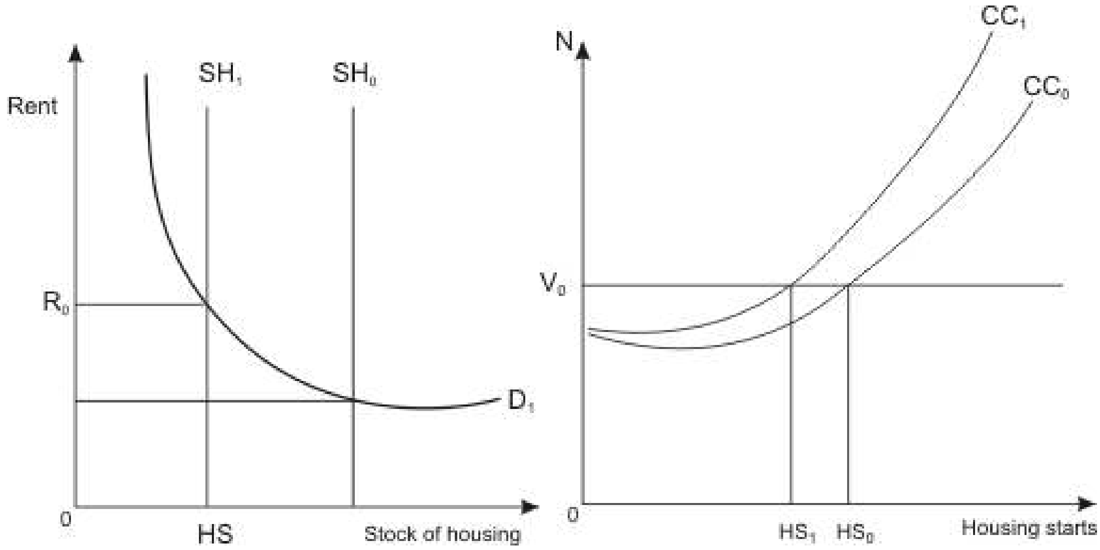


At R_O, SH existing houses are supplied given the demand schedule D. The value of SH at R_o is V_o when the periodic rent is discounted. Vo is compared to production cost, CC, to determine the number of housing starts HS_o at R_o. Supply adjusts in the next period when HS_o is added to HS.

When demand for housing increases:



D_0 moves to the right, D_1. Price will increase if housing starts do not increase by HS. If construction cost increases from CC_0 to CC_1, profit will fall, and production will decline (with some developers leaving the industry and others restricting production). The housing starts decline from HS_0 to $HS_1$and so total supply falls from SH_0 to HS_1, with rent rising to R_1.



3.5 Country Experiences on Home Ownership Market and Public Policy

The rise of large manufacturing, mining, general trading and international trade supported by cheaper transportation in the 19th century led to the emergence of large urban populations, in Europe and North America. The United States of America presents the best example of an active mortgage market in the world which many other countries have tried to replicate. And international capital has supported the growth of home ownership across the world.

3.6 The United States of America

The United States is a country of immigrants. Those who came from Europe introduced their land tenure system into the country. One was either a landlord or tenant in Europe in the Middle Ages and so it came to be in the United States. While wealthy landowners built their own homes, they also invested in real estate which earned them rent. The growth of urban/industrial employment increased the demand for dwelling houses. As workers' and merchants' incomes increased, many more people were able to buy land and built houses both for own use and for rent. Yet others borrowed to buy land and/or houses through mortgage. While the property belonged to the borrower, the lender could dispose of it to recover his debt. Mortgage as a means of lending and borrowing money existed in the 12th century in England and was introduced into United States by immigrants. Successful mortgage required that the lender will in addition to a legal right to the property mortgaged, he must also have credit information about the borrower. As a result, early residential mortgages were provided in towns where the lender knew the borrowers well enough. Those who could not obtain mortgages relied on land sub-dividers, builders, brokers, local investors, friends and relatives to purchase houses which were secured by land contracts. The land contracts were easily foreclosed if any payments were missed, with little or no opportunity of redemption for the borrower.

By the late 19th century, Mutual Savings Bank, Life Insurance Companies, and States-chartered commercial banks entered the mortgage market in response to real rising incomes and property values. By 1920, 39.7% of owned homes in the country were mortgaged. Loan-to-value ratio of mortgages increased. Building and loan associations (today's savings and loans) were predominant and they made it possible for the mortgage loan to be amortized. Although it increased the monthly payments, it eliminated balloon payment of principal at the end of the loan period. The building and loan associations partnered with builders and realtors to promote home sales and development.

The credit providers were mostly city and state-based and during the great depression, many of them failed. Many home owners also defaulted on their mortgages and the illiquidity of the securities became obvious. Reforms were introduced in two important respects: the mutual savings banks, insurance companies, and state chartered commercial banks sought and obtained multi-state and federal charters to broaden the market from which they raised deposit; a system of federal building loan banks were established to create liquidity reserve on which the savings and loans could draw to create liquidity reserve, continue making home mortgage loans during periods of tight money.

The United States Department of Labour launched a nation-wide "own your own home" campaign in 1918 and President Hoover in 1931 supported the effort by saying that "they never sing songs about a pile of rent receipts". In 1934, the Federal Savings and Loan Insurance Corporation was set up. It insured savings deposits with savings and loans. In 1938, the Federal National Mortgage Association ("Fannie Mae") was established to provide a secondary mortgage market just like a stock exchange provides for equity stock holders. After World War II, United States veterans were assisted in buying homes through the Veterans Administration Home Loan Guarantee Programme created under the GI Bill of Right Act 1944. The Government National

Mortgage Association (Ginnie Mae) serves exclusively the Federal Housing Association – Veterans Administration Mortgage. In 1970, a third government supported enterprise (GSE), the Federal Home Loans Mortgage Corporation ("Freddie Mae") was established to provide secondary mortgage market for thrifts so they can expand home lending even when deposit growth was slow or declining.

Tax credits were provided for home owners paying mortgage and savings and loans banks. Together with other government programmes, owning a home became an American dream. Between 1900 and 1930, 54% of American households owned their own houses. Currently the rate is about 70%, in spite of the credit crunch.

3.7 The Nigerian Experience in Real Estate Financing

Unlike the United States, Nigeria is a country of natives who live more in rural farmsteads. Also, land in Nigeria historically belonged to families and communities and the ownership is not backed by documentary evidence. Land registries came into being only when the British colonized the country. Yet not all land is registered till now and there are no cadastral maps of land except in parts of Abuja, the federal capital. Many farm households in the rural areas of the country do not own homes of any market value. In native urban areas and cities in the extreme north and southwest of the country, the layouts are chaotic, while the houses are compounds which can hardly be subdivided and put up for sale or mortgaged. Overall, therefore, Nigeria has a crying need for proper and adequate housing. To meet this large need, there has to be sufficient and growing private and public sector savings. Before the rapid rise in the international price of oil and its output, Nigeria suffered from both inadequate domestic savings and foreign exchange earnings.

Modern real estate in Nigeria began with the establishment of government housing estates for European public servants in government reserved areas of Lagos and a few other towns. The Nigerian Railways Corporation, the Nigerian Ports Authority and the Nigerian Coal Corporation also developed a large number of houses during the colonial period for their senior and junior staff. These government and quasi-government quarters were not allocated on owner occupier basis. They were therefore not in the market for home ownership. Other urban dwellers made do with rooms and apartments rented in townships developed by individuals. More often than not, the owners occupied part of the buildings and lets out the rest. These private buildings were financed out of personal savings. In a limited number of cases, landowners agreed with a developer to construct houses on their land on a build-operate-and-transfer basis. In Lagos, the Lagos Executive Development Board (LEDB) was set up in 1928.

The mortgage banking system in Nigeria started with the Nigerian Building Society in 1956. Thereafter regional governments set up housing corporations and associated savings and loans banks by 1960. A few cooperative banks were also established. While the Housing Corporations developed housing estates, the savings and loans and cooperative banks did not make significant impact on housing delivery. Up to 1973, when oil prices increased substantially, the supply and demand of home ownership in urban area was small. In 1973, the Federal Housing Authority (FHA) was established to propose and implement the federal government's housing programmes. Under the 1991 National Housing Policy, FHA was mandated to:

- Develop real estate on commercial and profitable basis;
- Provide sites and service schemes for all income groups in major cities of the country; and
- Provide low income houses in all states and the Federal Capital Territory from funds allocated by the federal government.

To date, the FHA has invested more than US $150m in housing and auxiliary infrastructural development throughout the country. It has about 55,000 housing units in 88 estates on an asset land holding of about 10,000 hectares nation-wide (see appendix 1 FHA property holding).

Increased urbanization, education and income have created an increasingly sophisticated middle class that desired their own homes, built uniquely to their taste. In 1977, the Nigerian Building Society was transformed into the Federal Mortgage bank of Nigeria (FMBN). The bank's equity is distributed as follows: Federal Government 50%; the Central Bank of Nigeria, 30%; and the Nigerian Social Insurance Trust Fund, 20%. Its authorized capital is ₦5 billion. The FMBN is the formal institutional mortgage player in Nigeria. It obtains funds for its wholesale mortgage lending from the National Housing Trust Funds (NHTF). Since 2002, the FMBN has been operating as a secondary mortgage and capital market player. The NHTF comes from 2.5% of the monthly incomes of Nigerian workers earning more than the minimum wage. Contributors to the fund can obtain mortgage loans at 4% rate of interest which they on-lend to contributors for up to 30 years at 6% rate of interest. Loan at 10% are made to developers as Estate Development Loans (EDL) to develop houses affordable by NHTF contributors. The loan is repayable in 24 months. The developers have formed the Real Estate Developers Association of Nigeria (REDAN). The FMBN also issues mortgage related debt securities (under Federal Government guarantees and other incentives) to raise capital market funds at low cost. The funds so raised are on-lent to primary mortgage institutions, universal banks and estate developers at market rates. Some of the capital is used for refinancing window operations. It remains however, the apex mortgage bank. As at April 2005, the NHTF had accumulated ₦15, 404,960,261 and disbursed ₦10, 064,100,105 for the delivery of 13,672 housing units. The disbursements went via 29 primary mortgage institutions (PMIs) to 4,617 contributors and to 28 developers for the production of 9,055 houses. This year, (2008) FMBN reported that 3.7m contributors have been registered and that over ₦37bn have been accumulated. The Bank has so far on –lent ₦68bn through PMIs.

During the third and fourth National Development Plans, the Federal and State governments created ministries of housing and invested much in housing production. Indeed in the Second Republic, housing production was a major programme of the Federal Government. By 2003 the housing deficit was estimated at 14 million and it was planned that 720,000 dwellings per year was required to meet the need.

3.8 Challenges of Demand and Supply of Mortgage Financing in Nigeria

The demand for quality home ownership in Nigeria is limited by income poverty. With a GDP per capita of US $1,120.00 and the average cost of a sizeable house at about US $40, 000.00, the market for home ownership is truly limited. One requirement for the housing sector to grow is that the economy itself has to grow very much faster than the growth of households. Only the tiny upper class can provide their own houses without accumulating ear-marked savings or borrowing.

Mortgage financing is therefore a rich source for growing housing supply if the enabling environment is in place. The factors necessary are hereunder:

Legislation

The Land Use Act has vested title to all land in a State, particularly in urban areas, on the State Governor. Obtaining access to land for building is encumbered by politics and bureaucracy which encourages illegal squatter settlements. To transfer property on land covered by Certificate of Occupancy, the consent of the Governor of the state in which the property is situated is required.

Many laws in the housing sector protect tenant rights and limit owner's action. This is not helpful for development houses by owners/developers.

Land/Property Registration

Apart from Abuja where a cadastral map and geographic information system exists, there are no proper records of land and buildings in Nigeria. Lenders who want to confirm ownership of property have no reliable information system to use. With the help of DFID, Enugu and Lagos States have introduced automation in their land registries but the coverage is limited because town planning falls seriously short of requirement. The process of registration is riddled with corruption and informality.

Mortgage Insurance

A majority of low and middle income households in Nigeria will be first time house owners. To lend to them will require guarantees backed by government. Not only will lenders provide credit to home buyers but a secondary market for mortgage securities can only be established when there is such guarantee. Local and foreign capital can then flow into the housing sector.

Credit Database

There is limited credible information on borrowers. Not only is the credit market small and fragmented, many people's credit history cannot be known. One of the 4C's of a lending bank is the character of the borrower. That C is missing in Nigeria.

Macroeconomic Stability

Inflation hurts savings and investment necessary to produce houses.

High and persistent inflation make nominal market interest rates high and real cost of credit very high. When homes are not affordable, effective demand for mortgage finance will be low.

Government has spent more time trying to force interest rates down than creating opportunity for macroeconomic stabilization.

Knowledge and Skill Gap

The knowledge and skill available in mortgage banking finance, building construction, estate management and town planning in Nigeria is quite limited. During the late 1980s and early 1990s, many primary mortgage banks, finance companies and investment banks sprouted and failed because among other things, they lacked knowledge and skill required. The many mortgage schemes in Nigeria: Low Cost Housing Schemes at Malili (Kaduna State), Abakpa (Enugu State), Kubwa (FCT), Rainbow Town (Rivers State) and others; African Real Estate (Enugu State); Rumuibekwe Housing Estate (Rivers State), Satellite and FESTAC Towns (Lagos State) are now all shadows of what was hoped for. Not one of them has generated momentum by succeeding.

Development Administration

Urban areas are typically planned in order to manage the externality arising from population density, multiple uses of land and buildings and environmental and safety concerns. Erecting buildings in urban areas are universally regulated. In Nigeria, obtaining a building authorization is a costly transaction in approved areas. The various governments are concerned with the revenue from granting licenses while the process officials are concerned with the rent accruing to them from issuing the permits. It is therefore common to obtain permits to do anything if the right fees are paid hence you find those who avoid the transaction costs and head to squatter settlements.

Taxes

Value added taxes are imposed on building construction at every stage, from financing to completion. In some instances, these taxes may amount to 20% or more of the cost of a building programme.

Contracts Enforcements

In a mortgage transaction, default and repossession/foreclosure may arise. The right of creditors to foreclose home is not recognized without the determination of the court. It is well known that enforcing rules through the courts are expensive and time consuming. The longer a default lasts the more costly it is to the lender. Many primary mortgage banks/developers and even government agencies such as Federal Mortgage Banks and the Federal Housing Authority commonly collect large down payments of 30-50 percent from mortgage subscribers but fail to deliver homes to them for many years. Delivered houses are often of low quality and where monies are returned, no interest is paid but charges are deducted. The prospects suffer without recourse.

Cost of Building Materials

About 50% of the materials required for building construction in Nigeria are imported. Policy reversals and the premium inherent in a managed foreign exchange regime do not favour domestic production of building materials. Use of local materials like burnt brick is expensive because of limited supply and scarcity of skilled labour. Importers enjoy monopoly power and choose to fix prices and supply the quantity demanded at the price.

Infrastructure

Urban dwellers in Nigeria tend to generally provide their own municipal services such as water supply, electric power, roads, drains and waste disposal. These add to housing development cost and reduced affordability. Where infrastructure is lacking, property values are low, property depreciate faster.

3.9 The Perspective

To promote housing finance through mortgage in Nigeria, we need to put appropriate policies in place including:

Making Housing Affordable

This can be achieved by obtaining a low and stable inflation regime. It will increase savings and lower interest rate. The National Housing Fund would then attract remunerative interest rate and long term capital can then flow into the sector. Credit subsidies which are currently in practice will cease to be necessary and its distortionary effect will be eliminated. Instead, mixed mortgage instruments should be introduced to make long term lending worth the while of private sector operators.

Increased Participation in the National Housing Fund

The National Housing Fund should be a retirement fund to which everybody who is employed whether as a wage earner or as a self-employed person should subscribe. The NHF number would be like a social security number. This will increase the amount accumulating to it.

Strengthening of Mortgage Banks

It is curious that mortgage banks are licensed by the Federal Mortgage Bank, when in fact they are deposit takers. Like micro-finance banks, they should be licensed and regulated by the Central Bank to increase confidence in them. Supervision by Central Bank will control their risk behaviour, relative to their capital and business focus. As the current United States housing market crisis has demonstrated, housing is an important asset/channel of monetary policy. A well functioning financial market promotes a prosperous economy. All money and credit markets should come under the purview of the central bank, while the capital market should be regulated by the Securities and Exchange Commission. Fragmentation has not and would not help markets to grow.

Establishment of Certainty of Property Rights

The Land Use Act has extinguished private right to land and promoted land racketeering by well placed individuals. Private right to land should be restored while public regulation of land use should be strengthened. The right of the lender to foreclose property should be recognized, just as subscribers to mortgage schemes should get value for money. Registration of property is necessary to enable persons with interest in them to register their interests. Credit bureau and custodial services should be put in place for mortgages to protect and serve all stakeholders.

Reform of Government Housing Agencies

The Federal Mortgage Bank and the Federal Housing Authority should be merged and substantially privatized. The new outfit should offer mortgage guarantee and raise money in the capital market, locally and internationally, to support mortgage transactions.

The National Council On Housing and Fiscal Policy

The Ministries of Housing and town planning authorities should be well funded to plan and make available, liveable towns to developers. They should not be used to raise revenues but charges for land infrastructural development should be economic and spread over time like mortgage, payable by house owners.

3.10 Conclusion

While there are very strong views about making available, affordable homes to Nigerian households, it is obvious that government-led housing supply programmes have not delivered adequate supply. As was noted earlier on, the Federal Mortgage Bank lends to PMIs at 4% and to Estate developers at 10%. But prime mortgage lending rates in Nigerian universal banks and their associated mortgage outfits in August 2008, ranged from 12% (Intercontinental Bank) to 28% (First Inland Bank). When other charges are added, it will be obvious that mortgages are not affordable in Nigeria. The major reason is inadequate supply of long-term deposits/funds to finance long-term mortgages. The use of short-term deposits/funds to finance long-term mortgages makes the cost of funds high.

Poverty is the most wide-spread feature of our economy and the size of the mortgage market reflects the situation. The poverty derives mainly from low income (earning). In many occupations and economic sectors, incomes are extremely poor. Government housing policy suggests that provision of improved housing to households with low income will increase their income/reduce their poverty. The truth however is that many households are so income-poor that they cannot get to the subsidies government-controlled mortgage market threshold. A 3-bedroom flat at FHA Gwarimpa II Estate sells for ₦8.5m. a buyer through the NHF will have contributed to the Fund for up to 6 months and will be required to pay 30% of the asking price (approximately ₦3m) to a PMI before application to FMBN for the balance of ₦5.5m will be made on his/her behalf. The total payment is supposed to made in 14 days to FHA! How many heads of households on

HATISS 13 and above can afford to participate in the bidding? Some of those that manage to pass through the eye of the needle may not be able to service the mortgage with 25% of their annual aggregate emoluments over 25 years! Hence, when there are enough houses built and offered at subsidized prices, there are insufficient buyers. More often than not, the number of houses is inadequate and a very dark and black market in powers of attorney ensues! It is interesting that an automobile which comes after a home among household consumer-durables in terms of cost is doing well in the mortgage market. The reason is that the demand is backed by ability to pay and guaranteed by reputable employers. Ironically, the market interest rate on automobile mortgages is lower than that for homes.

It is my view that public policy should focus on enabling people to earn good income from productive work. When the market actually works, it will also work for the demand and supply of mortgage.

It also needs to be stressed that many people are not happy to pay their mortgage liability. Because they tend to believe that it is their share of national cake. Furthermore, every attempt by government to provide housing stock below market rate is a disincentive not to save and discourages banks from lending at market rate. For example, if government is selling a house worth ₦11 million at ₦3 million, no bank will make the mistake of building an ₦11 million and sell at ₦11.5 million since there will be no patronage. We submit that public policy should promote rather than hinder home ownership. And the final point is that all these houses below market prices ordinarily meant for the less privileged citizens require enormous political power to get. In essence, they never get to the poor.

4.0 EXPERIENCES AND CHALLENGES IN MORTGAGE FINANCE PRACTICES IN NIGERIA

Oloyede Obatoyinbo, Vice President, Head, Home Loans First City Monument Bank PLC

4.1 Challenges of Mortgage Finances in Nigeria

In Nigeria, mortgage finance practices are bedevilled by a number of challenges, principal among which are:

a) Lack of Universal Credit Bureau;

b) High interest rates;

c) Lack of mortgage awareness;

d) Lack of adequate housing stock;

e) Costly and convoluted process of Title perfection; and

f) Lack of proper foreclosure courts and processes.

(a) Lack of Universal Credit Bureau

In many developed economies, notably the United States of America and the United Kingdom, there are well developed Credit bureau systems which serve as data bank for a poll of information about the general public and potential bank customers. With this system, a few minutes encounter with a potential customer provides the banker with so much information about him and which could help the bank to make vital decision with regard to his suitability or otherwise of the mortgage facilities. Sadly in Nigeria, this system of Credit bureau is lacking or at best be said to be at its infancy.

Nigerian Credit bureau is currently being developed by Accenture, a firm of management consultants with the participation of most banks in Nigeria. When it is well developed, it will provide the financial history and other vital information of bank customers. Additional impetus in this credit bureau scheme is the Central Bank of Nigeria initiative in which loan defaulters are documented and any bank can make a check on the CBN data to obtain information on the risk potential of a customer, that is, whether a given customer seeking a facility from a bank had defaulted in loan repayment to another bank. In essence, financial institutions now have a platform in which they can investigate mortgage applicants including the verification of their employment records, whether they have existing facilities and their repayment performance.

(b) High Interest rates

With the bank consolidation programme, Nigerian banks are now highly capitalized. But its characteristic feature is that funds available to them are short term deposits, whereas the loan requirement for mortgages is on long term. Evidently, the mis-match between short term deposit and long term mortgage financing results in upward pressure on lending rates. Indeed, interest rate in Nigeria on mortgage financing is exorbitant ranging from about 20% to 23%. With such a high interest rate, mortgage financing becomes unattractive and this negatively affects the growth of housing delivery.

Except in few places where mortgage transactions are witnessing robust capital appreciation, the enthusiasm or interest in mortgage financing is dwindling. It is the capital appreciation in property in some cities that is sustaining the interest of many people in mortgage financing. For example, loan facilities relating to property in Lekki area of lagos which FCMB did in 2007 and where the property was valued at ₦50million – ₦55 million, same property is now valued at about ₦120million – ₦125million.

The good news is that there is the medium term initiative, being put together by banks in Nigeria to reduce interest rates on mortgages. Evidently, such a development will drive mortgage business on a faster lane as it will increase access and affordability in mortgage financing. This medium term initiative, calls for the imperative of accessing international funds from such agencies as the World Bank, IMF, International Financial Corporation etc to obtain long term fund to match long term mortgage financing. Invariably it is projected that in the next 18 months interest rate on mortgage will hover in the region of early tens percent. The issue of a single digit interest rate being clamoured for, will take a longer period to materialize and that perhaps will come with the promotion of a viable secondary mortgage market playing refinancing roles and facilitating the capital market securities.

(c) Lack of Mortgage Awareness

There is huge effort by banks in mortgage transactions. About six to eight banks are very active in mortgage loan disbursements up to the tune of ₦500 million to ₦1 billion a month. Most of these transactions however take place in Lagos and Abuja. Right now, Nigerian mortgage industry is witnessing loan counts of 40-50 transactions a month. The problem is that not many people are aware of this development and efforts are being made to ensure that at every available forum, awareness of mortgage is created. This is being done through newspaper interviews, advertorial, discussions with government, writing of policy papers etc. Though these mediums, the government, the general public and potential customers are increasingly being aware of huge potentials of mortgage in the economic development.

The mortgage industry as a percentage of GDP is critical to the growth of the economy. In 2001 in the United States after September 11 disaster, where the economy of the country was at the verge of collapse, it was the mortgage industry that sustained the economy and carried it across that difficulty times. Again in 2008, we are witnessing a dangerous tide in global economy arising from sub-prime mortgage transactions. It shows the place of mortgage industry in national and international economic development. Considering the crucial role mortgage industry plays in the economy of any nation; there is the imperative to enlighten the various stakeholders on the need to strengthen it. General awareness can be made by way of dissemination of information about mortgage issues in literatures, newspaper interviews, advertorial presentations to real estate firms on available products and mortgage documentation requirements; promotion, organization and initiation of round table discussions and other awareness forums etc as well as participation in real estate seminars, workshops etc and encouragement of best practices in the industry.

(d) Lack of Suitable Housing Stock

It has been reported that Nigeria is in deficit of housing to the tune of between 12-15 million units. And with respect to housing stock, the location and nature of structure is very important.

The shortage of housing stock notwithstanding, many institutions and agencies are making huge contributions to enhance its supply. More developers are contributing to the increase in housing supply; Bank are getting more flexible in project financing in facilitating housing delivery; Developers are getting more savvy in positioning for bank financing eligibility i.e. performance bonds, availability of title, etc. Governments are beginning to play a proactive role in the delivery of affordable and suitable housing stock etc

(d) Costly and Convoluted Process of Title Perfection

The issue of complexity and the costly nature of Title perfection is one of the factors that is impeding the pace at which mortgage industry should be galloping. In Ghana, the time it takes to perfect mortgage title is one month depending on the type of title and there are two types. With new titles, it takes about a week or two to complete the perfection process. But in Nigeria, change of titles in land transaction is always a nightmare. It is costly and time consuming and this makes mortgage access much difficult. The sad thing is that Nigeria one can change title of a car within few hours from the time of purchase, whereas perfection of legal mortgage takes months to the detriment of the mortgage consumers and the general economy. This trend is the reverse of what obtains in the United States where perfection of property titles is easier than the change of ownership of a car.

4.2 Conclusion

There are positive developments in access to mortgage facilities. FCMB recently packaged a mortgage for a couple who domiciled their salaries in the bank. Self employed people who can demonstrate their cash flow now have a good prospect of getting mortgage .In other words the issue of mortgage is not limited to civil servants or employees in organized private sector although it is easier for them for obvious reasons. Every person who can keep record of his or her cash flow can, and one who can convince the bank of his or her ability to repay mortgage if given, can now enjoy the opportunity of mortgage and thereby contribute to the growth of housing delivery.

The dream of home ownership is indeed flaming in Nigeria. It is believed that with increased awareness, a positive outlook in the legal framework, a progressive foreclosure process, mortgage industry will gather a new impetus.

5.0 LEGAL AND REGULATORY BOTTLENECK TO MORTGAGE FINANCE IN NIGERIA

Prof. R.A.C.E. Achara, Legal Practitioner and Lecturer, Enugu State University of Science and Technology

5.1 Introduction

Mortgage is a type of financial support that stands on its own. It has its own particular characteristics. It is a unique security and serves the purpose of ensuring more access for finance for home ownership to as many people as possible.

It should be stated that finance is about funding and one resorts to external funding where he has no money to execute his projects. Provision of funds is not limited to banks although they are the principal providers of funds. When it is realized that the person providing funds to another is doing so as a business, it is imperative that he ensures that quite apart from the return of the principal sum, he gives out as loan, he should expect the borrower to be able to pay the interest on the loan. The difficulty arises in ensuring that the lender will get his money back as at when due. To this end, he must hold something of great value belonging to the borrower as a guarantee that the borrower will repay the loan. This is where securities become necessary and there are various types of securities. The peculiar type of security called mortgage is one that relies on something unique and that is the property itself.

In a mortgage, the borrower transfers interest in his property to the lender while retaining its possession. Mortgage ordinarily will be a very safe way of ensuring that the borrower will repay his loan to the lender provided that loan-to-value (LTV) ratio is alright.

5.2 Concept of Loan-to-Value Ratio

Loan-To-Value Ratio is the percentage of loan granted to a borrower in relation to the value of the security he provides as collateral. The standard banking practice is that the loan granted does not exceed 75% of the value of the security provided by the borrower. For example, if you grant a loan of say ₦900,000.00 for a property whose value is ₦1 million, there will not be any incentive to repay the loan. The borrower will most likely use the loan to acquire another property and leave the lender to foreclose or realize the property with attendant cumbersome processes in addition to further expenses.

5.3 Legal Bottleneck to Mortgage Finance

The fundamental bottlenecks from which other bottlenecks emanate, has to do with the provisions of the Land Use Act 1978. Some particular provisions which have proved detrimental to the quest of home ownership through mortgage financing are sections 22 and 26 of the Act.

Section 22 provides:

“It shall not be lawful for the holder of a statutory right of occupancy granted by the Governor to alienate his right of occupancy or any part thereof, by assignment, mortgage, transfer of possession, sublease or otherwise howsoever without the consent of the Governor first had and obtained”.

And section 26 of the Act provides: “Any transaction or any instrument which purports to confer on or vest in any person any interest or right over land other than in accordance with the provisions of this Act shall be null and void”.

The provisions of the above sections of the law have critical implications for mortgage financing in Nigeria. A person who loans money has legitimate expectation of recovering the principal sum and interest. And where the borrower defaults in meeting the loan obligations, it is expected that the lender should be able to realize the security provided by the borrower without much difficulty. Where there are grave obstacles in the realization of the mortgagee’s security, the impetus to lend will diminish with attendant negative consequences on housing delivery. That is the problem in the Nigerian environment. Where the bankers realize that there is the legal requirement under the Land Use Act to the effect that any mortgage transaction they engage in without prior consent of the Governor is null and void, they will not be in a hurry to grant mortgage because of the attendant risks

5.4 Incoherent Legal Regime on Mortgage Financing in Nigeria

The problem of mortgage financing practices is made worst by the incoherent judicial pronouncements on the interpretations of the provisions of sections 22 and 26 of the Land Use Act. With greatest respect, even the apex court seems not too sure about what the position of the law on this subject is. One then can appreciate the dilemma of legal officers in banks processing mortgages when the Supreme Court from which they should seek relief is not too sure of the legal consequences of the said provisions of the Land Use Act.

At different times the Supreme Court has different and conflicting judgments on the legal consequences of the aforementioned provisions of the Land Use Act. In February 2008, the

Supreme Court in the case of **Calabar Central Cooperative Thrift Credit Society vs EKPO** in the leading Judgment read by Justice W.S.N Onnoghen (JSC), held that once the Governor's consent has not been endorsed in a document of alienation, being a mortgage or other similar transaction, such a document is a worthless paper, and the transaction is null and void, and of no effect whatsoever. What is shocking and disturbing in this judgment is that it is a complete reversal of the judgment of the same Apex court delivered about six months earlier where it held that the mere fact that the Governor's consent has not yet been endorsed on document of alienation, does not invalidate the transaction and does not leave the banker without a remedy, rather it means that the transaction is merely inchoate, uncompleted, in a process and not that it is void. The implication of the earlier judgment is that the banker can still go and complete the transaction that was in process by obtaining the governor's consent and everything will be normalized. But the latest judgment leaves the bank without any remedy. This poses a grave risk to the banker in the process of mortgage financing. Higher the risk in a transaction, higher the interest rate with attendant consequence of lower access and affordability of mortgage financing. Put differently, the interest in loans and other facilities follows the risk factors.

The bottleneck in mortgage finance is beyond the question of Governor's consent. Most fundamental is the bureaucratic hurdles and the corruption that flows thereof. We have just been told that in Ghana, it takes about one week to complete the perfection of legal mortgage, but in Nigeria, many staff in the Lands Registries constitute major obstacles to efficient Land transactions. They impose private charges and levies on people who come for Governor's consent. Money is required as inducement to push a file from table to table. But the stark reality is that they have a limit to how fast the consent process can go. They can push the file until it gets to their superior officers who they cannot influence and that will take time before the consent is eventually endorsed.

My contention is that there is the need to deal with the issue of costly and delayed process of title perfection if we are to compete with other jurisdictions and if we really want to achieve the programme of Housing- for- All as envisaged by the Millennium Development Goals and government's policy.

5.5 Imperative of Benchmarking the processing of Governor's consent

Even if we have to ask for consent, there is the need for some guidelines and benchmarks as to how it can be obtained. There should be a review by consultants, bankers, lawyers and other stakeholders who should give some inputs based on their experiences on the specific procedures and reasonable time frame within which to accomplish title perfection.

The benchmark should put an upper time limit between submission of an application and the time of obtaining the approval.

There should be a system of determining the date of application for the consent submitted, the time of submission and when the consent was obtained. No instrument should be completed before the one submitted earlier without a formal reason. This process will ensure for example, that before you process an instrument submitted on 5th November you would have completed the one submitted on 3rd November. In this manner, the practice of corruption in Land Registry would have abated in that even if an applicant refuses to offer bribe to the staff in the Land Registry, they will have no option than to process his application before they can treat other instruments submitted later, no matter the amount of bribe collected .

5.5 Conclusion

It should be reiterated that while bankers are the principal players in mortgage financing, they are by no means the only players in the industry. We further wish to restate that the Land Use Act has introduced a legal regime that is too difficult to implement and worst still it is susceptible to corrupt practices and abuses and will not lead us to the attainment of our vision of housing for all.

6.0 COMMENTS AND DISCUSSIONS

6.1 Comments

(a) Adeniyi Yagboyayi (South-East Zonal Co-ordinator, Federal Mortgage Bank)

The Federal Mortgage Bank was established as an indication of Federal Government's commitment to housing development. Its vision is to fill in some gaps in the economy arising from the paucity of long term funds which is fundamental to the financing of mortgage. The essential source of long term fund is savings by individuals, households and corporate entities. It goes without saying that our poor saving culture results in the paucity of long term fund.

One of the ways of mobilizing long term fund for housing delivery is by way of establishment of National Housing Fund (NHF). Under the NHF, every worker in the public sector earning up to the national minimum wage contributes 2.5 percent of his salary to the fund. Through this process, the Federal Mortgage Bank has mobilized ₦10 billion from 1992 to 2002 and ₦36 billion from 2003 to date for on-lending to some contributors through Primary Mortgage Institutions (PMI). While this sum may be sizeable on the face value, in relation to the amount required for adequate housing delivery, it is only a tip of iceberg. Statistical research shows that as at 2007, Nigeria was in deficit of 14million housing units. Putting the average cost of a housing unit at ₦5 million, it is estimated that ₦7 trillion is what is required to tackle the housing deficit in Nigeria. When we compare the sum of ₦46 billion so far mobilized by the Federal Mortgage Bank since 1992, then we can appreciate the enormity of challenges before us a nation in terms of meeting the Millennium Development Goal of Housing- for- All in 2015.

This challenge calls for the imperative of effective participation of all stakeholders in the development of housing sub-sector. In truth, the major stakeholders in the mortgage industry including the insurance industry are not doing enough to give housing delivery in Nigeria the deserved impetus.

Within the limits of its financial capacity, the Federal Mortgage Bank is doing its best. It has given out estate development loans to private developers under public private partnership (PPP). It financed the estate development at Emene, Enugu State to the tune of ₦3000 million and between 1992 and 2000, it made ₦45 million refund of contribution and ₦6000 million refunds from 2003 to date.

The contributors as a major stakeholder should not be lackadaisical about the funds. They should make a demand for the refund of their contributions.

(b) Mr. Larry Eneh Senior Special Assistant to Enugu State Government

Housing sector development is faced with a number of challenges including but not limited to the following:

- Lack of Mortgage awareness;
- Low earning capacity relative to the cost of home ownership;
- Lack of suitable housing stock;
- Costly and convoluted process of perfection of titles; and
- Lack of clearly defined foreclosure process.

The issues of foreclosure process, cost and process of title perfection have something to do with the structure of the federation and hence not matters over which State Governments have absolute control. Be that as it may, Enugu State Government led by Barr. Sullivan Chime appreciates the challenges of housing development and therefore, made it one of its 4-points Agenda.

At the inception of Governor Chime's administration, it set a target of delivering 2000 units of houses in four years (which is 500 units per annum). But after a thorough assessment of housing needs in the state, the Government discovered that the state has a deficit of over 50,000 units of housing, prompting the Governor to set a new target of housing delivery at 10,000 units in four years (i.e. 2000 units per annum) and the creation of the Office of Senior Special Assistant (Housing Development) to bring in private sector to partner with the Government to deliver adequate stock housing for the state. The state has enlisted the support of private developers through Enugu State PPP Housing Scheme. The arrangement is that the state provides the estate developers with suitable lands and the developers to build and sell to the public at affordable prices.

The state government is already collaborating with firms like Hydrofoam in South Africa and others in Turkey to provide affordable houses. Hydrofoam has given assurances that it can deliver a 3-bedroom bungalow at ₦1.8 million. When this is accomplished, it will be a big relief to the state and her citizens.

Enugu state government is creating awareness on mortgage financing. In furtherance of awareness creation, the Government in collaboration with Federal Mortgage Bank has scheduled a workshop for November, 2008 on the theme, "Housing For All – NHF Option". Among other objectives, the workshop is designed to bring in the informal sector in Enugu State into the NHF scheme. Also, the state Government in concert with FMB has succeeded in bringing back the state civil servants into the NHF scheme.

It is the belief of the Governor that the higher the salary of a worker, the higher will be his 2.5% contribution to NHF and invariably, the higher will be his savings towards home ownership. On this score, Governor Sullivan Chime has increased the minimum wage from ₦4,000 per month in the previous administration to ₦7, 500.

There is no gainsaying that Housing is a big social responsibility for Enugu state Government but the truth is that government alone cannot deliver adequate housing stock needed in the state, hence, it is beckoning on all those who have ideas and resources to deliver to join hands with the state to increase the pace, quantity and quality of housing development.

(c) Elder J.U. Kalu (Patron, Enugu Forum)

The housing development issue in Nigeria has become a subject in many seminars and workshops. Every government comes, raises hope on housing delivery, complete its tenure of office without achieving their goals on the housing sub-sector. We however need not rest on our oars.

We must continue to create awareness on this very important issue of national development. That is why I commend the African Institute for Applied Economics (AIAE) for coming up with the issue of the challenges of mortgage financing as the theme of this policy colloquium.

There should be more discussions on the subject of housing delivery and mortgage financing. Happily, Enugu State Government has just assured us that next month, that is November 2008, there will be a workshop of a similar nature.

I must say that in Nigeria, we are never short of ideas but our problems have been that of implementation often bedevilled by man-made difficulties. I trust in the usual capacity of the AIAE to push our recommendations in this workshop to policy makers and executing authorities.

I further wish to state that it is so instructive listening to the panellists in this colloquium on the causes of the difficulties to effective housing delivery and how they can be eliminated.

It has become obvious that banks especially FCMB, are eager to deliver and contribute to government's efforts on housing development but the issue of governor's consent constitutes a clog to the pace of mortgage industry. Something urgent needs to be done to tackle the bottlenecks created by sections 22 and 26 of the Land Use Act. From my personal experience, I applied for Governor’s consent in December 2006 and this is October 2008, I have not got the consent. In Nigeria, simple things can drag for weeks, months and years until you give up.

Government and banks need to talk. Banks have come together and let the Government know of those issues that are giving them headaches, particularly now that we have a government of rule of law.

6.2 Open Forum

(a) Prof. Eric Eboh

By way of throwing up issues for discussion in this segment of colloquium, I must say that beyond resource mobilization by the Federal Mortgage Bank is the question of deployment of the resources mobilized. How has the FMB deployed the over ₦46billion it mobilized since 1992?

What is the bank doing to explore non-traditional sources of resource mobilization? Outside the National Housing Fund (NHF) what other instruments are being used by the bank to mobilize additional resources for mortgage loans, and aside the issue of refund of contributions, how has the bank deployed the mobilized funds?

Research by AIAE under the banner of BECANS (Business Environment Across Nigerian States) shows that different states have different waiting period with respect to Governor’s Consent. In the said research, one of the indicators of competitiveness of business environment was the time frame from the submission of application for Governor’s consent to the time the application is approved. Our finding was that there is a considerable variation on waiting period across the states. The states in the North have lower waiting period than the states in the south. The Northern States generally have waiting period as short as 1-3months on the average. But in south-east states we have the worst scenario, with some states having a waiting period of over 3years.

Our elder statesman, Elder Kalu has just relayed his personal experience. He applied for the Governor’s consent in December 2006 and until now October 2008, he is yet to obtain the consent.

One of the ways many states have gone around this problem of Governor’s consent is by the Governor delegating his powers under section 22 of the Land Use Act to the Commissioner for Lands to quicken the Mortgage processes and thereby making their states more investment-friendly.

Our research further shows that the Land Use Act is annexed to the Constitution of the Federal Republic of Nigeria 1999 and this has a fundamental legal consequence, to wit, that it is a part of the constitution – the nation's supreme law. The Land Use Act cannot be amended like other legislations. Amending it will involve the same process and procedure as constitutional amendment. And that is the crux of the matter. The difficulty of amending the constitution has become obvious with the pull and pushes among those whose functions it is to handle this very important national task.

Whenever the constitution is amended it is our expectation that the Land Use Act should first be severed and de-annexed from the constitution so that it can be amended henceforth like any other ordinary legislation

Questions, Responses and Comments

Q. Whether from the bankers or government's perspective, the common man seems alienated from mortgage opportunities. Emphasis is on those who have jobs, formal employment and who draws salaries. What is the fate of the unemployed? Don't they have the right to decent shelter?

- C.U. Agbo Esq, Legal practitioner

Response:

Mortgage is a business transaction and is hinged on repayment capability. The current global financial crisis is attributed to the issue of sub-prime mortgage and mortgage repayment default. While every individual has the right to shelter, it is difficult for now to factor in the unemployed into the mortgage scheme. While emphasis is on people who are in formal employment, self employed people who can provide credible financial record to convince the bankers of their capacity to repay mortgage if granted now can be availed of the facility.

Like every other formal business transaction, there are criteria for obtaining mortgages. The belief of the Government of Enugu State is that underlying the solution to housing problem is the issue of job creation. When one has a sustainable means of livelihood the issue of home ownership will be a matter of time.

Q. As a civil servant, I have been contributing to the NHF. What can I do to access the NHF loan to build my house? If I am unable to get the loan while in service and I retire, how can I get the refund of my contribution?

- Mrs. Chika Oname

Response:

As a contributor, you have a responsibility first to approach the Accounts Department of your establishment to make sure that the NHF dedication is remitted to the FMB and your pass Book updated monthly. When you need a mortgage, you approach any primary mortgage institution and apply for the loan. Normally, they will require you to furnish them with certain documents such as certificate of occupancy ["C of O"], tax clearance certificate, etc. They will process the application and send it to FMB for final approval.

Note that the maximum amount of NHF loan per person is ₦5millon

On the alternate source of mobilization of fund by FMB, the FMB has started the capital market aspect of her functions. In 2007, she went to the capital market to raise funds through mortgage bond. It needs to be stressed that the law setting up the FMB, gives key roles to the various Stakeholders including the CBN, Banks and insurance companies. These roles are now harmonized to get the funding of FMB right.

Q. Against the backdrop of the bottleneck occasioned by section 22 of the Land Use Act, in what way is Enugu State Government facilitating quick perfection of Title?

– **Dr. Nicholas Ozo, UNN.**

Response:

What many States are doing to eliminate the bottleneck arising from the provisions of the Land Use Act is to delegate the functions of the Governor under the Act to the State Commissioner for Lands and Housing. From inception of this Administration, the commissioner has been signing Certificates of Occupancy and the Governors consent. This is aimed at quicker facilitations of dealings on land. Short delays presently being experienced by the public at the Land Registry in Enugu State has to do with the computerization process of titles. Hopefully, in the next few months, this problem will be a thing of the past and you can access all information you want from the Land Registry from the comfort of your home or office through the internet.

Q. What are the Criteria for getting allotment of Land for developers? I am asking this question because for the past two years we have applied for Land to build 1000 housing units in the State, up till now, we have not gotten the approval.

-ACB Igwenagu , General Manager Harvard Trust Savings and Loans Ltd.

Response:

Enugu State Government is a government of due process. An application for Land passes three levels of presentation before getting to the State Executive Council for final approval that is why it seems to be dragging. Hopefully the final presentation of the Harvard Trust Savings and Loans will come up in December 2008 or so soon there after

Q. How can I access mortgage loan from a Bank?

- Emeka Udemezua

Response:

Different Banks have deferent formalities or processes. At FCMB for example you will be required to fill a pre –qualification form (usually one page) .containing about three sections where provisions are made for personal data, details of the loan required, the amount required, details of your salaries or turnover if you are self employed, details of the property itself and the kind of title it has.

If you pass the per-qualification stage, you will be informed about the amount you are qualified for. Depending on the loan-to –value assessment, you may require ₦`10million and you qualify for ₦8 million or less. Having been informed about the amount of loan you qualify for, you get application form and this contains more detailed information. At the last page of the application form are contained documents required of you – otherwise called pre-approval checklist. When you supply the checklist, you will get turnaround time for availment of the mortgage. Where you have a land and need fund to build it, this will be outside mortgage. It is about project financing and it requires different processes and formalities.

Q. If I apply for land from the State Government and I am given the fee to pay which I did, can another government in - power come to say that the land is no longer my own? If such occurs, what is my remedy?

- Emeka Udemezua, Business man

Response

The Land use Act gives the Governor of a state powers under Section 28 of the Act to revoke a certificate of occupancy for overriding public interest subject to payment of adequate compensation. But revocation power is not exercised for the fun of it.

Q. How does the law protect the consumer of housing who is in between the supplier of credit and supplier of houses with respect to the quality and standard of the houses?

-Godswill Egbe, company Executive.

Response

The business of selling and buying of houses is a contractual relations and is governed by Law of contract. Where the supplier of the house derogates from the terms of the contract, there are remedies or claims available to the aggrieved party. He can seek relief in damages or sue for specific performance, compensation or tortous liability where the poor standard of quality occasions personal injuries. It may also lead to criminal liability where the developer goes below the standard of quality set by law.

Comments

(i) Human Right and Housing delivery

Arc Nnenna Iwewa

It appears to me that the statistics given by Mr. Larry Eneh the SSA (Housing Development) to the effect that Enugu State has a deficit of 50,000 housing units is an underestimation, perhaps based only on the housing needs of the civil servants in the state. Housing shortage in the state must be far beyond that figure when we appreciate the fact that everybody has a right to shelter. Right to shelter is an extension of environmental justice.

The Nigerian Urban planning Forum in collaboration with the UN Habitat is experimenting with the concept of a 2 bedroom flat at the cost of ₦700, 000. I think this is an idea government should buy into and commence its pilot scheme.

The housing delivery issue must be approached from the human rights perspective and this calls for constructive engagement by governments to bring down the cost of home ownership. As a matter of fact, if the African Charter on Human and People's Right is enforced, many governments will be docked for failure of the social responsibility to provide shelter for their citizens.

(ii) Enugu State Government Set for Housing Boom

Larry Eneh. SSA (Housing Development)

Enugu State Government arrived at the rough statistics of 50,000 housing deficit putting into consideration about 28,000 population of the civil servants and the population of the state, the envisaged number of people per housing unit and the available housing stock. In this first tenure of Governor Sullivan Chime, he is committed to deliver 10,000 housing units. The Mary land Estate has 234 units, Lake view Estate has 230 units. At Nkubo, we have 1,270 units and Ibagwa Garden City- for middle income bracket has 850 units made up of duplexes and bungalows. Indeed, in Enugu, it is a new era of massive housing delivery for all classes of people – high income, middle income and low income earners.

The attitude which our people must avoid is this tendency of rejecting a house because it does not have provision for personal space for town meetings, for rearing of goats or planting of maize. Again, it is obvious that the problem of touts and "area boys" syndrome are negatively affecting housing development. On this, the citizens themselves have a great role to play by resisting the illegal extortions from developers. I give kudos to AIAE for the opportunity of this policy colloquium, which I liken to village square meeting, giving us room to brainstorm on the issue of housing delivery.

(iii) Implication of "Community Boys" Syndrome to Housing Development

Dr. Kingsley Ogboi, UNN Lecturer

The development of housing stock to match the growing population is bedevilled with the unfortunate spread of "community boys" syndrome and the primitive acquisition instinct of the politicians in the country. Indeed, the environment of housing development is becoming most unfriendly. When an investor buys a piece of land, he is confronted by a large army of "community boys" as soon as he prepares to develop the property. They present a catalogue of charges ranging from elders kola-nuts, Security fee, and Surveillance charges and so on. Where the developer fails to pay, the tools of his workers are confisticated. And at night, his structure may be demolished. If he opts to pay, he finds that even before construction, he would have paid up to ₦1 million.

The government may come to the rescue of poor citizens by building low – income housing but such a property meant for the common man never gets to him as politicians scramble for them. You soon find all manner of lists- Governor's, Deputy Governor's list etc .When a commercial estate is built, only one man can buy up 20 units and convert it to a hotel. Head or tail the masses have no succour

(iv) Prohibition of Multiple Ownership of Houses

Ogwu Chukwudi, Civil Society

The primitive acquisition of property by the rich has denied the poor access to shelter. I suggest a legislation which should prohibit those who already own houses from purchasing any unit of government –built houses

(v) What Interest Rate for the Refund of NHF Contribution?

Okey Onyeka, Civil society

I have a strong feeling that 95% of NHF contributors will never get the benefit of their contributions. I say this against the backdrop of the meagre contribution from the meagre salaries of the contributors. How much does 2.5% of ₦7,500 per month translates into even for 30 years? Besides, the authorities will require the loan seekers to provide Certificate of Occupancy which they know will be extremely difficult to obtain. The point is that FMB is merely interested in making the refund of the NHF contribution upon the retirement of the contributors. But we must be interested in knowing at what interest rate the refund should be made.

(iv) Enugu State Government should be applauded for Massive Infrastructural Development

John Okoye, Zenith Bank

Issue of housing delivery has strong connection with affordability of housing stock. We should appreciate the fact that what brings the cost of buildings to the rooftop is the various costs of putting up infrastructure on self help basis. If you build a house in an area where you have no water, no electricity, no access road, the cost of building the house will definitely increase as you will need to provide these infrastructures. The massive infrastructural development being embarked upon by Enugu State Government has reduced the cost of estate development.

(vii) Global Financial Meltdown: Implication for Nigeria

Oloyede, FCMB

The financial meltdown which engulfed the United States and the UK manifesting in crash of stock markets and resultant credit crunch stemmed from the failure of mortgages. With the boom in housing sector, everybody including those who have no capacity to repay mortgages rushed to it.

In the United States, mortgages are securitized. With the default in repayment of mortgages, comes loss of confidence in the securities. Investors were no longer willing to put their money in the stock and the resultant effect was the credit crunch.

The degree of attachment of our financial system to the apron strings of the western economy will determine the extent of our vulnerability to the global financial crisis. The extent and dimension of the implication is a matter of guess. Our prayer is that crisis should stop at the borders.

7.0 COMMUNIQUE

COMMUNIQUE OF ENUGU FORUM POLICY COLLOQUIUM HELD OCTOBER 29, 2008 AT ENUGU

The ENUGU FORUM is a civil platform for informed debate on socio-economic issues with the objective of proffering ideas to enhance the quality of policy decision-making. The Forum is facilitated by the African Institute for Applied Economics (AIAE), in line with its mission to romote evidence-based policies. The Forum comprises civil society organizations, private sector organizations, government technocrats and academia.

The October 2008 session of the Forum featured a policy colloquium titled “The Challenges of Mortgage Finance in Nigeria: Questions of Access and Sustainability”.

The Forum observed:

- That mortgage finance is crucially relevant for Nigeria’s quest to achieve the target of the Millennium Development Goals in the area of access to secure and decent housing;
- That Nigeria suffers acute deficit of housing for its citizens, since access to secure housing is estimated by the National Bureau of Statistics to be about 31%;
- That Nigeria’s mortgage subsector is largely underdeveloped. This is evidenced by the fact that mortgage finance is equivalent to less than 0.5% of GDP, compared to 3% in Ghana, 5% in India and 20% in South Africa. As result, only a miniscule proportion of the potential population has access to mortgage finance;
- That mortgage finance is hampered by interplay of economic, cultural and institutional factors including lack of awareness of mortgage markets, widespread income poverty, limited access to long-term finance by primary and secondary mortgage institutions, ambiguous and cumbersome foreclosure regulations, lack of Credit Bureau to provide information on lenders, poor access to land and cumbersome process of perfecting land titles and alienation of land rights particularly the requirement of Governor’s Consent; and
- That the sub-prime mortgage meltdown in the United States which induced the global financial crisis underscores the challenges and imperative of sustainability in the demand for and supply of mortgages.

The Forum recommended:

- That government and private sector should deepen collaboration to improve the access to and sustainability of mortgage finance in Nigeria;

- That the Land Use Act should be amended with a view to reviewing sections 22 and 26 of the Land Use Act which specifies Governor's Consent prior to transfer or alienation of interest in Land;

- That the National Assembly should use the opportunity of the proposed constitutional amendment to decouple the Land Use Act from the Constitution in order to ensure flexibility of reviews;

- That State Governors should delegate the powers of Governor's Consent to relevant authorities, as already practiced in some states;

- That the government should strengthen regulation of mortgage finance to improve transparency and credibility of mortgage financial institutions, real estate developers, mortgage borrowers and mortgage insurance firms; and

- That there should be increased sensitization and enlightenment on the National Housing Fund, the activities of the Federal Mortgage Bank of Nigeria and the overall mortgage sub-sector.

On the potential implications of global financial crisis, the Forum reiterated that the extent of exposure of the country's financial institutions to global financial flows will determine the scale and nature of consequences for Nigeria's financial institutions. The Forum therefore, encouraged the financial regulatory authorities to keep a close eye on the global financial development and to take proactive steps to forestall negative spill-over in Nigeria.